CITY OF SAN ANTONIO

March 29, 2006

City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of the Department of Community Initiatives – Child Care Delivery System

City Management and the Department of Community Initiatives (DCI) have reviewed the audit report for the City's Child Care Delivery System (CCDS). Please find attached DCI's Management Comments and a Corrective Action Plan for the recommendations.

The financial issues regarding procedures and processes noted in the report overall were immediately addressed upon receiving the audit report. The audit report noted there were transactions totaling over $2.6 million that were found in the MIP recoupment subsidiary ledger that could not be explained by the CCDS staff. Our research shows that these transactions were not a recoupment, but were test customers used as training clients and as tests of the system. DCI is determining the feasibility of reversing these test entries to record a zero balance.

The audit review of client case file documentation originally showed a 79% error rate which was subsequently reduced to 19%. This change in audit results occurred after the CCDS staff showed the audit interpretation of required program documentation was seriously flawed. The questioned client expenditures were originally reported at $191,086 and subsequently reduced in the audit to $42,640 after the CCDS staff corrections were accepted by the auditors.

The report's Exhibit A in the "Results In Brief" section of the report titled "Assessment of CCDS' Internal Controls" is based on a tool from the American Institute of CPAs (AICPA) referred to as "Internal Control – A Tool for the Audit Committee". This tool appears to have been misapplied and conclusions reached unsupported. The tool is based on a series of yes/no questions discussed in an open forum with the individuals that have a basis for responding to the questions including key members of the financial management team and internal auditors. No such forum took place nor was any evidence provided from the City Auditor that would have supported responses to the series of questions enumerated in the tool.

The final audit report reflects the same audit findings and conclusions, including your assessment of CCDS's internal controls, as your prior draft report even after the computed error rate for client case management and questioned client expenditures were both substantially reduced. We question how these findings and conclusions can remain intact even after your auditors verified and accepted the accuracy of the report corrections made by the CCDS staff.

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	Recommendation				
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	Executive Summary (ES)				
ES1	Improve the internal control environment: • Define procedures for proper fiscal administration and case management • Provide routine training to Financial Accounting Services and Child Care Services Staff to ensure procedures are being followed • Segregate duties regarding the billing, recording, depositing, and reconciliation of recovery payments (Detailed Report Recommendation 1; Response Page 2: Detailed Report Recommendation 2; Response Page 3: and Detailed Report Recommendation 3; Response Page 3)	4			
ES2	Improve processes in the Financial Accounting Services unit: • Interface the State's BAPA Database to the City's ERM/SAP System to input provider invoice information • Record receivables for AWS reimbursements based on provider payments reflected in the City's ERM/SAP System • Reconcile provider claims in the State's BAPA Database and provider payments in the City's ERM/SAP System to AWS reimbursements • Adjust the recoupment subsidiary ledger for the $2.6 million unexplained amount • Request a one-time advance payment and electronic funding; alternatively, deposit all reimbursements the day of receipt or the following business day (Detailed Report Recommendation 2; Response Pages 2 & 3)	4			
ES3	Ensure that all required documents to support eligibility are maintained in the client's file (Detailed Report Recommendation 3; Response Page 3)	4			
ES4	Ensure that the Quality Assurance Section implements the monitoring plan required by the AWS Contract (Detailed Report Recommendation 4; Response Page 3)	4			

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Recommendation					
#	**Description**	**Audit Report Page**	**Accept, Partially Accept, Decline**	**Responsible Person's Name/Title**	**Completion Date**
	Detailed Report				
1.	**Management and Internal Control Issues** Initiate corrective action regarding the management and internal control issues, specifically, inadequate procedures, staff training, and employee skill sets	11	Accept	Lynn Stewart CCDS Social Services Manager	February 1, 2006 Training will be an on-going function
				Natalie Adams Acting Fiscal Planning Manager	May 1, 2006

2006 **Management Comments/Action plan:**
CCDS Directive 5.1 was implemented on December 20, 2005 to maintain and establish protocol for updating and revising the CCDSD procedures in accordance with established Texas Workforce Commission (TWC), Alamo *Work*Source (AWS), and City of San Antonio directives and guidelines. A CCRS Training Outline for multiple level trainings was developed in January 2006, implemented in February 2006, and will be an on-going function of the program. CCDS supervisor duties have been amended and require review of client intakes and file documentation.

CCDS follows recently issued COSA, DCI, and CCDSD Cash Handling Procedures. Procedures will also be implemented to administer vendor payments to ensure separation of duties, reconcile SAP system information to other CCDS systems, enter receivables into SAP based on invoice amounts, centralize the deposit of grant receipts to mirror COSA's Cash Handling Policy and Procedures, and revise a system to record and account for program recoupments.

2.	**Financial Accounting Services Issues**				
	• Interface the State's BAPA Database to the City's ERM/SAP System to eliminate duplicative efforts needed to input provider invoice information	15	Partially Accept	Natalie Adams Acting Fiscal Planning Manager	To be determined
	• Record receivables for AWS reimbursements based on provider payments reflected in the City's ERM/SAP System	15	Accept	Homer Garcia, Grants Management Officer	March 16, 2006
	• Reconcile provider claims in the State's BAPA Database and provider payments in the City's ERM/SAP System to AWS reimbursements	15	Accept	Homer Garcia, Grants Management Officer	April 16, 2006
	• Continue recovery efforts of the $6,074 in overpayments of City funds made to providers	15	Accept	Homer Garcia, Grants Management Officer	April 16, 2006
	• Instruct the Finance Department to mail checks to child care providers	15	Partially Accept	Natalie Adams Acting Fiscal Planning Manager	March 6, 2006

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#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	• Record recoupment receivables in the City's ERM/SAP System	15	Accept	Natalie Adams Acting Fiscal Planning Manager	May 1, 2006
	• Adjust the recoupment subsidiary ledger for the $2.6 million unexplained amount	15	Partially Accept	Natalie Adams Acting Fiscal Planning Manager	May 1, 2006
	• Segregate duties regarding the billing, recording, depositing, and reconciliation of recovery payments	15	Accept	Natalie Adams Acting Fiscal Planning Manager	May 1, 2006
	• Process recoupments in compliance with AWS requirements	15	Accept	Natalie Adams Acting Fiscal Planning Manager	October 1, 2006
	• Provide routine training to ensure procedures are being followed	15	Accept	Natalie Adams Acting Fiscal Planning Manager	May 1, 2006
	• Request a one-time advance payment and electronic funding; alternatively, deposit all reimbursements the day of receipt or the following business day	15	Accept	Natalie Adams Acting Fiscal Planning Manager; Homer Garcia Grants Management Officer	May 1, 2006

Management Comments/Action plan:

DCI requested the Information Technology Services Department (ITSD) develop an interface between the State's CCDS Local Application System and the City's SAP System. While the feasibility, time requirements, and cost of this recommendation will have to be evaluated by ITSD and Finance, DCI will continue to employ other processes to reduce the exposure to data entry errors.

CCDS implemented a procedure to enter receivables into SAP Sales Orders based on the invoiced amounts entered into the CCDS system. Direct child care invoices will be entered in total by upload (batch) within 3 business days of receipt of the CCDS System 2016 Turn Around Summary Report indicating acceptance of the automated invoice. Other manual invoices will be entered into SAP after the invoice is reviewed and signed by the authorized DCI Management staff.

CCDS will implement a procedure to reconcile direct child care invoice amounts entered into the CCDS system to the invoice amounts entered into the City's SAP system. This process will be performed in total by upload (batch) within 30 days of receipt of the CCDS System 2016 Turn Around Summary Report indicating acceptance of the automated invoice that was entered into the CCDS system.

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The stated overpayments occurred during the conversion from FAMIS to SAP. The possibility of overpayments will be addressed with the implementation by CCDS of a procedure to reconcile direct child care invoices entered into SAP with invoices entered into the State's CCDS Local Application. CCDS has successfully recovered a majority of the stated overpayments and will continue recovery efforts on the balance.

DCI implemented a policy that prohibits fiscal staff personnel that have payment initiation roles from retrieving vendor payments from the Finance Department. In order to be responsive the customer needs special provisions exists for vendors to have the availability to pickup payments in person directly from the Accounts Payable section of the Finance Department. While the issue noted dealt with direct child care vendor payments this policy is applying to all payments. In instances where the department needs to obtain the check directly, either to remit it with additional items or special circumstances exist for the item to be paid in person or delivered, only staff without payment initiation roles will be allowed to retrieve the payment.

CCDS has requested technical assistance from the City Attorney's Office on the issue of recoupment amounts being a legal receivable to the City, as opposed to only the program, and legal implications in the collection of the amounts. Technical assistance has also been requested from the Finance Department on the use of the SAP system in managing the client recoupment accounts through the accounts receivable/sales module. The department is studying a Council action to establish a dedicated account that would allow for the recording and accounting of the recoupments, the establishment of an allowance against the recoupment amounts, and the transfer of realized revenue to the grant program as program income or the remittance back to the grantor, based on AWS directives. The programs' procedures and policies will be revised based on the final system used for the recording and accounting of recoupments and will reflect corrections to issues addressed in the audit.

The $2.6 million noted in the report as unexplained in the recoupment subsidiary ledger is not a recoupment, but represents three test customers used as training clients and as a test of the system. A review of these three accounts shows names such as "AWD", "AWD non-BAPA," and "LIRS". Actual recoupment clients are setup in the MIPS accounting software by individual customer name (such as John Smith). A MIPS consultant has been contacted to research the ability to reverse out these test entries to zero balance.

The Acting DCI Fiscal Planning Manager and the CCDS Grants Management Officer will ensure that all new procedures and training on these procedures are provided to the CCDS fiscal staff.

CCDS requested Alamo *Work*Source consider using electronic funds transfers for reimbursement to the City under the CCDS program on March 6, 2006. Additionally, a procedure was implemented to centralize the deposit of grant receipts in the department's fiscal section. The department's procedure mirrors the City's Cash Handling Policy and Procedures with regard to the adoption of timeliness of deposits guidelines.

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3.	**Child Care Services Issues**				
	• Address internal control issues regarding lack of segregation of duties and supervisory reviews	18	Accept	Lynn Stewart CCDS Social Services Manager	April 1, 2006
	• Ensure that DCI Management provides training on eligibility, client priority, and documentation that should be maintained for compliance with TWC and AWS requirements	18	Partially Accept	Lynn Stewart CCDS Social Services Manager	April 1, 2006

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		Recommendation				
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Management Comments/Action plan:
CCDS has hired additional staff that is being assigned caseloads previously handled by the CCDS supervisors. CCDS supervisors will resume performing client case reviews. An internal CCDS monitoring team is being re-staffed and will review client case files for accuracy and completion of file documentation. Additionally, Child Care Services teams are being formed to allow CCRS to have administrative backup for filing, making follow-up phone calls, and other support duties.

DCI concurs with the audit's adjusted error rate which was reduced from 79% to 19%. The auditors misinterpreted the documentation required as proof of residency and incorrectly made the assertion that a copy of social security card was needed for both the parents and the children receiving care. AWS guidelines only require a copy of the social security card for the children receiving care. The error rate was further reduced when CCDS staff provided documentation that was available in the client files to verify parent income, child support, school transcripts, and work hour documentation. As a further control, an internal CCDS monitoring team is being re-staffed and will review client case files for accuracy and completion of file documentation. Additionally, the Office of Quality Assurance will continue to perform monitoring reviews of client files.

The CCDS Social Services Manager will reaffirm the priority eligibility requirements to CCDS supervisors and caseworkers to ensure the highest priority clients are enrolled in the program.

The original audit results reported 33 lower priority clients received CCDS benefits totaling $44,184. CCDS staff made wait list documentation available that resulted in an audit adjustment to accurately reflect only 15 lower priority clients were provided CCDS benefits totaling $12,871. Additionally, an audit assertion was made that the lower priority client intakes included City employees. As an internal control, DCI already required a CCDS supervisor to perform the intake on any DCI employee applying for child care services to ensure no favoritism was shown. Our new Department Directive 39 expands this requirement to cover the CCDS intake of all City employees.

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4	**Quality Assurance Section Issues** Ensure that adequate monitoring occurs and that significant issues are reported timely to City Management and the DCI Director	20	Partially Accept	Jenny Ayala Quality Assurance Manager	October 1, 2006

Management Comments/Action plan:
DCI concurs that regular quarterly reviews of client services files, quarterly or biannual reviews of CCDS's administrative and operations expenditures, and semi-annual reviews of the payment process were not performed as stated in the Statement of Work, effective October 2004. This requirement will be conducted in the future on a regular basis as stated in the contract. Additionally, the CCDS internal monitoring section will continue to perform quarterly reviews of the required areas of responsibility as stated in the contract and Statement of Work that include client services, provider management, fiscal, and internal such as personnel items.

DCI non-concurs with the reported monitoring activity conducted at CCDS between October 2004 and March 2005. During this timeframe, the CCDS internal monitoring section issued a provider review and AWS conducted a client file review of the CCDS program. Additionally, the Office of Quality Assurance provided technical assistance to the CCDS program and performed a CCDS cash handling review. Attachment D of the audit report did not include the following assistance and reviews made by the Office of Quality Assurance for grant years 2003-2005:

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	(1) Technical assistance provided by the Office of Quality Assurance to CCDS from October 2005-January 2006, with one staff person assigned to CCDS full time.				
	(2) A Cash Audit review performed in February 2005 by the Office of Quality Assurance with a monitoring report issued in May 2005.				
	(3) A Providers Services review performed by the Office of Quality Assurance with a monitoring report issued in July 2004.				
	(4) A client file review conducted between October 2002-March 2003 by two Office of Quality Assurance staff involved over 600 files and reported bi-weekly results to the Director of DCI and Executive Director of AWS.				

DCI is committed to addressing the recommendations in the audit report and the plan of action presented.

Sincerely,

Frances A. Gonzalez
Assistant City Manager

Dennis J. Campa
Director, Department of Community Initiatives

March 29, 2006